

A Progressive Evaluation of Direct Tax Revenue in India

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Abstract:

The primary objective of any country is the overall growth and development of a country. The government should focus on the welfare and developmental activities which requires finance. Tax is considered a major source of revenue for a government. Therefore, the development of a country is related to the tax revenue generated. This paper examines the direct tax revenue collected in India. The main objective of this paper is to analyse the direct tax revenue in India and also suggest certain measures to increase the same. Data has been collected from secondary sources i.e. Union Budget and Economic Survey, Ministry of Finance, etc. The researcher has used various tools for analysis like average, percentage and has also calculated tax buoyancy. The researcher concluded that there has been increase in the tax revenue but still there are certain loopholes which need to be improved.

Keywords: Finance, Tax, Tax Revenue, Tax Buoyancy, Direct tax.

I. INTRODUCTION

The overall growth and development of any country is the most important function of the government. All the activities which constitutes growth and development needs finance. Government raises finance through taxes. *In the words of Dalton “ Tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for any legal offence”.*

Tax is permanent instrument for collecting revenues. The collection of taxes is divided into direct and indirect tax. Income tax is categorized into direct tax.

II. REVIEW OF LITERATURE

Various studies have been made covering different aspects of income tax structure which includes personal income tax, capital gain taxation, efficiency of income tax administration etc. A few of them have been outlined below:

Piyush Kumar (2016) this study focused on estimating the responsiveness of personal income tax as a result of a change in inequality in the distribution of income. He concluded that an increase in tax inequality in the distribution of income among the taxpayers increases yield of personal income tax in India.

Deepak Bhaghel (2016) in his paper tried to study the role of modern information technology in tax administration. He compared utilization of information technology in India with other countries like Canada, United States, Singapore, New Zealand, Spain, Mexico. The study highlighted that the use of computer in tax administration was almost universal. The study concluded that modern information technology could be fully utilized by introducing organizational change, training to human resources, standardization and supportive legal framework.

III. NEED OF THE STUDY

Income Tax deserves due attention in a developing economy as it is one of the most important sources of government revenue. Tax system of India has come a long way. Restructuring of taxation system has been a major component of fiscal reforms. The main objective of these changes has been to enhance tax revenue by enlarging tax base, encouraging voluntary tax compliance and simplifying procedural rules. Therefore, the

present study is an attempt to evaluate the progressivity of direct tax revenue in India and also suggest certain recommendations for the improvement of the same.

IV. OBJECTIVES OF THE STUDY

- To study the growth of income tax revenue during the period of study (2011-12 to 2014-15).
- To make suggestions to improve the system of taxation of income in India on the basis of findings of the study.

V. RESEARCH METHODOLOGY

For the purpose of the study, data has been collected from secondary sources which includes the various Finance Acts, Income Tax Act 1961, Reports of CAG of India on Direct Taxes, websites of Income Tax Department, Ministry of Finance, pertains to the period from 20011-12 to 2015-16. The analysis of data collected has been examined by using some statistical tools such as simple frequencies, percentages, averages, simple growth rate, compound annual growth rate (CAGR), buoyancy coefficient.

VI. ANALYSIS AND INTERPRETATION

The analysis and interpretation of the study has been done through the analysis of the tax structure and the analysis of the direct tax revenue through tax buoyancy.

6.1 Indian Tax Structure

Tax structure refers to the various taxes that comprises the tax system of a country, comprising of direct and indirect taxes. Income tax and wealth tax are the main direct taxes while excise duty and custom duty are the main indirect taxes of the central Government of India. Income tax can be categorized in two parts viz. Personal Income Tax and Corporate Tax. Income tax levied on individuals, Hindu undivided families (HUFs), firms, association of persons (AOPs), body of individuals (BOIs), local authorities and artificial juridical persons is called Personal Income Tax and income tax levied on companies is called Corporate Tax.

Table 1 present Revenue collected from the various direct & indirect taxes and their respective share in total tax revenue of the central Government.

Table 1: Direct and Indirect Tax Revenue of Central Government

YEAR	DIRECT TAXES				INDIRECT TAXES				TOTAL
	PERSO NAL	CORPO RATE	OTH ER	TOTA L	PERS ONAL	CORPO RATE	OTHE R	TOTA L	
2011-12	120034	213395	389	333818	104141	99708	60716	264565	598383
2012-13	132833	244725	505	378063	102991	83324	58422	244437	622800
2013-14	147560	298688	687	446935	137500	132370	70200	340070	787005
2014-15	170788	298688	787	494799	144116	149328	97509	390953	885752
2015-16	201486	356326	845	558657	175137	165818	132498	473453	1032110

(AMOUNT IN CRORES)

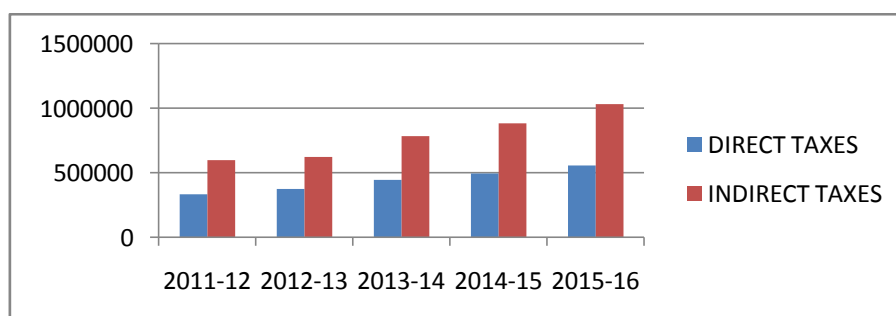
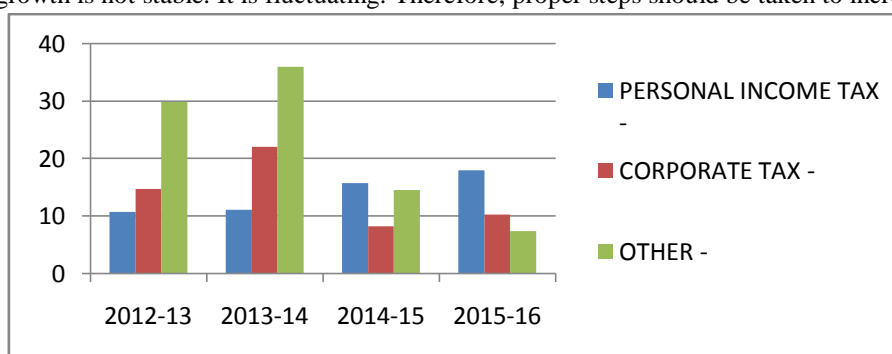


Table 2: Growth in Income Tax Revenue (In %)

YEAR	PERSONAL INCOME TAX		CORPORATE TAX		OTHER	
	AMOUNT	GROWTH	AMOUNT	GROWTH	AMOUNT	GROWTH
2011-12	120034	-	213395	-	389	-
2012-13	132833	10.66	244725	14.68	505	29.82
2013-14	147560	11.09	298688	22.05	687	36.03
2014-15	170788	15.74	298688	8.21	787	14.55
2015-16	201486	17.97	356326	10.24	845	7.36

It is clear from both the tables that there is a positive growth in the amount collected of the different taxes yet the growth is not stable. It is fluctuating. Therefore, proper steps should be taken to increase it.



6.2 Tax Buoyancy

Tax buoyancy is an indicator to measure efficiency in revenue mobilization in response to growth in GDP. If tax buoyancy is high, it indicates built-in flexibility in the tax structure. Further, if it is greater than 1, it indicates more than proportionate response of the tax revenue to rise in GDP. It is computed by dividing the percentage change in tax revenue by the percentage change in GDP over the period.

Table 3: Tax Buoyancy (Amount in Crores)

YEAR	PERSONAL	CORPORATE	TOTAL	BUOYANCY COEFFICIENT		
				PERSONAL	CORPORATE	TOTAL
2011-12	120034	213395	333429	-	-	-
2012-13	132833	244725	377558	1.24	1.71	1.54
2013-14	147560	298688	446248	1.19	2.37	1.95
2014-15	170788	298688	494012	2.53	1.32	1.72
2015-16	201486	356326	557812	3.63	2.07	2.61

Source: Union Budget and Economic Survey, Government of India

The table shows that the buoyancy coefficient has shown a high percentage of fluctuations. In few years, it has increased and in others, it has decreased. The personal income tax has shown higher buoyancy in comparison to corporate tax.

VII. CONCLUSION

After going through detail analysis of data during the mentioned period i.e. 2011-12 to 2015-16, it is time to cap it all. Both direct tax and indirect tax witness an increasing trend. However, there is a structural shift in composition of tax revenue of central Government in favor of direct taxes from indirect taxes. This can be considered as a positive development on the assumption that direct taxes are more equitable in impact and poor as compared to indirect taxes. But still, there is a need to improve the collection.

VIII. RECOMMENDATIONS

After going through the summary assessment of income tax department of India, it is found that its performance can be improved further if certain corrective actions are taken in right direction. In the light of this study, some suggestions are given as under:

1. Necessary care should be taken at appropriate level either by policy reforms or administrative flexibility to increase the tax collection.
2. Growth of Income tax is not at par with corporate tax. Thus steps should be taken to increase the income tax either by increasing tax base or encouraging the people to pay tax by simplifying the filing procedure and awareness.
3. Tax evasion and corruption practices are widely prevailing in the Indian tax system, which are the biggest blocks in the way of proper implementation of law. Thus, there is a need to tackle tax evasion and corruption for improving tax compliance.

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